



The Real Estate TRENDS

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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

Number 4

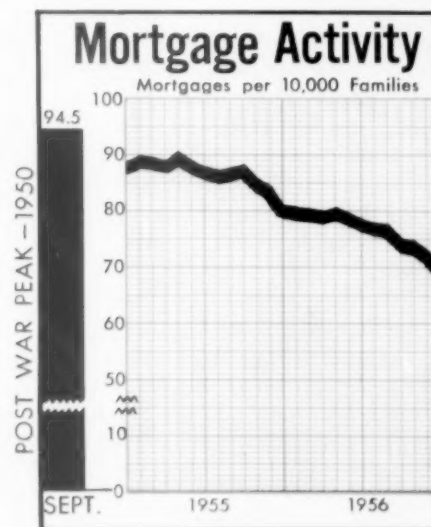
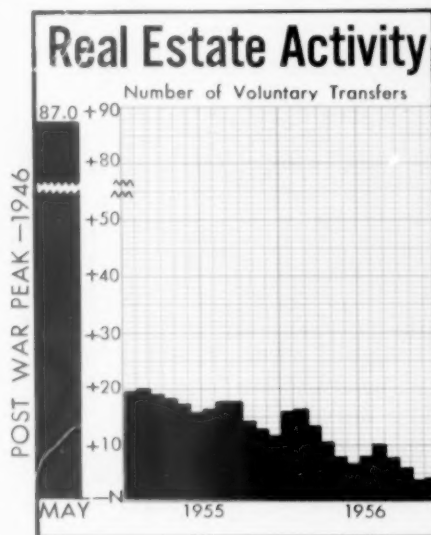
REAL ESTATE ACTIVITY

The difficulty in financing real estate became increasingly apparent in the transfer figures after the first 2 or 3 months of 1956. January and February, on a seasonally corrected basis, showed an increase in activity, in comparison with the last 3 months of 1955. From then on the general trend in real estate activity was down. In November, it reached a point only $3\frac{1}{2}\%$ above the long-term normal and recovered a trifle in December, ending the year at 3.8% above normal.

During 1957, real estate activity will again struggle against difficult financing. Although the increased interest rate on the FHA should be of some help, it is still too early to tell what Congress will do with the VA interest rate.

MORTGAGE ACTIVITY

The chart to the right shows the number of mortgages recorded each month for each 10,000 families in our metropolitan areas. While recordings are still relatively high, the effect of tight money is clearly apparent during the last half of the year. The poorest of the 24 months charted is the last, which showed a drop, on a seasonally corrected basis, of $22\frac{1}{2}\%$ from the peak reached in April 1955.

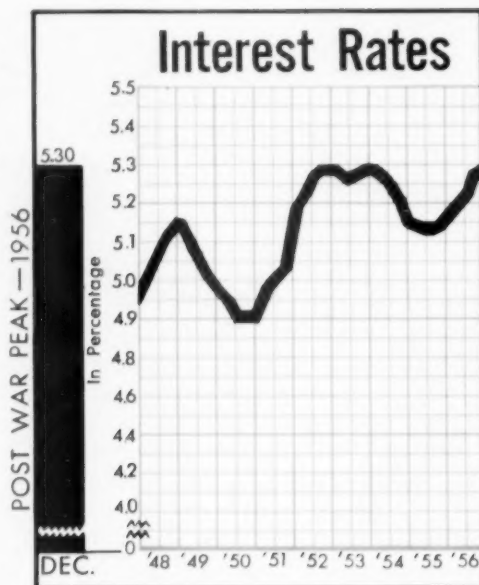


INTEREST RATES

The chart at the right is computed from the interest rates on recorded mortgages. Since the records in the recorders' offices throughout the country do not show discounts and points paid to the lender for making the loan, the rates shown on this chart form an accurate picture of recorded interest rates only. This understates the actual average interest charge including discounts.

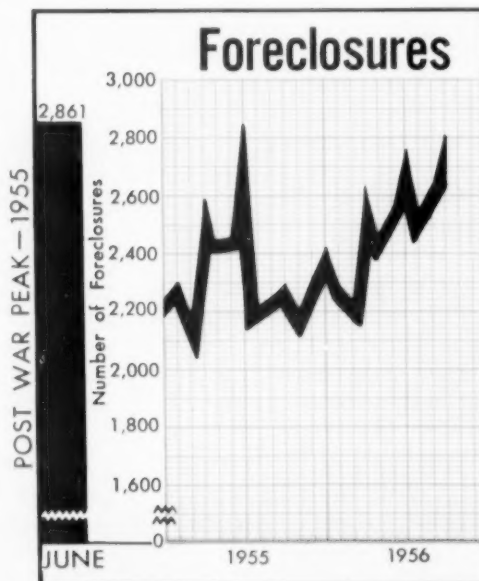
It should also be kept in mind that mortgage recordings lag the making of mortgages by probably a matter of months.

In view of the fact that discounts were very heavy on FHA's and VA's during 1956, the rise in the recorded rate from the end of 1955 has been marked, and in 1957 should be at a more rapid rate.



Foreclosures, while still relatively low, are inching up slightly due, no doubt, to the tighter money situation. The last figure available in 1956 is the largest monthly total since June 1955, which was an unusually high month in 1955. It is much above all other figures of the last few years.

There seems slight chance, however, that foreclosures will increase tremendously during 1957. The fact that construction costs are still rising will have a tendency to support the values of existing properties. This, in turn, will make foreclosures infrequent occurrences.

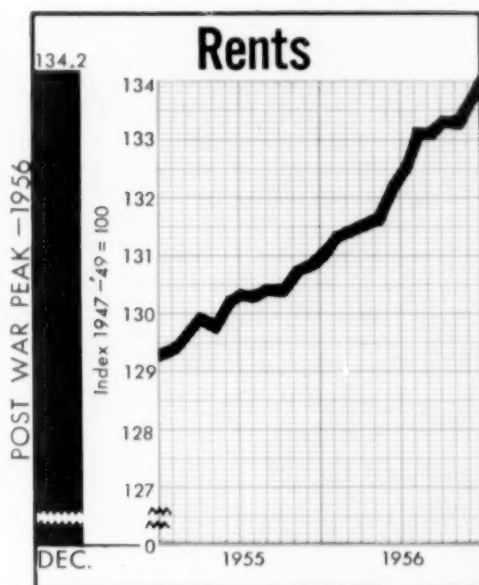


RENTS

The chart to the right shows the way residential rents have been rising month by month since January 1955. Of the 23 months shown, there has been a rise in 20. We believe that these rises will continue during 1957.

The marriage rate has passed the trough, and we believe that the rate of new family formation will increase each year for a number of years in the future. Since young married couples generally rent for some years before they become home buyers, the increase in the rate of new family formation should be a positive factor in keeping the rental market higher than it would otherwise be.

From the long-term viewpoint, rents are still relatively low.



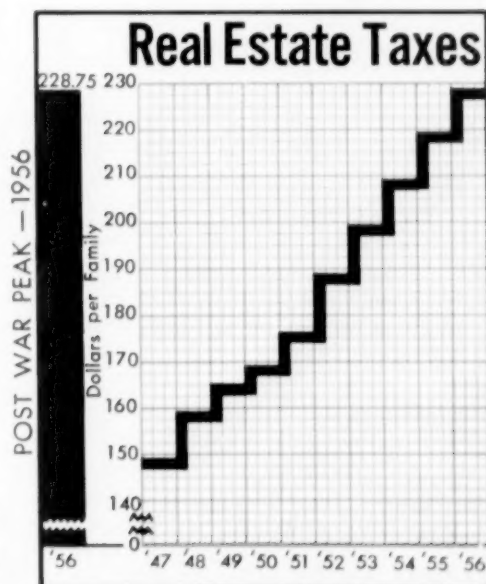
REAL ESTATE TAXES

The chart to the right shows the average real estate tax load per family for each year from 1947 to the present.

The figures for this chart are computed by taking the total dollar real estate tax in all principal cities and dividing it by the total number of families in these cities.

While this chart does not go back more than 10 years, our figures show that the average real estate tax load per family has more than doubled in the last 12 years.

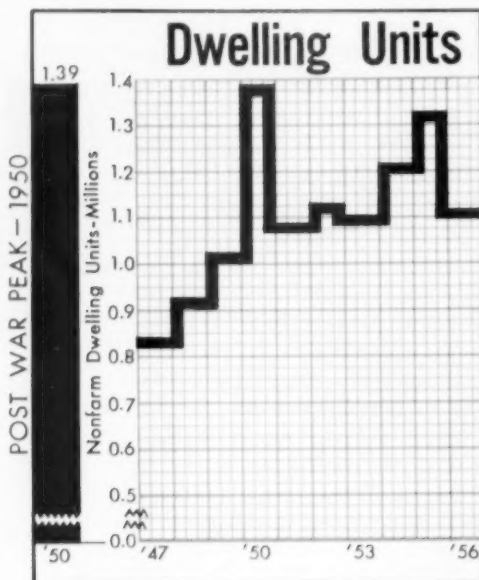
It looks as if real estate taxes will necessarily increase each year as the cost of maintaining schools, highways, and municipal services is constantly going higher.



DWELLING UNITS

In 1950, we built 1,396,000 nonfarm dwelling units in the United States. This set a record. We approached this figure in 1955, but during 1956, tight money and a lessening in demand caused a drop of better than 15% from the 1955 figure in the number of dwelling units produced, ending the year with 1,120,000. In 1957, it seems probable that we will build something better than 900,000 dwelling units. This will be a drop from the preceding year of from 10% to 20%.

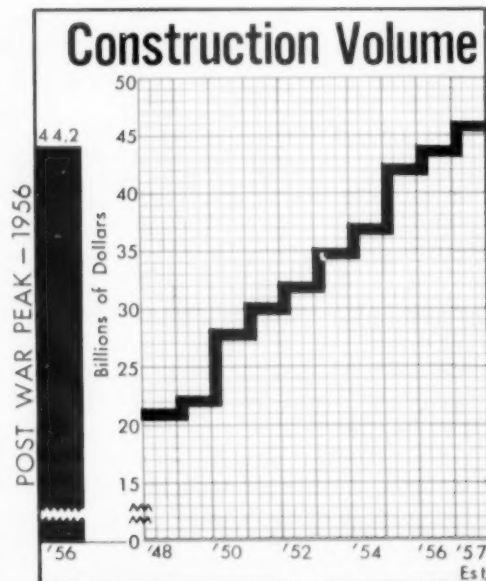
Unless Congress makes the necessary changes in VA loans, the drop will be greater than it would otherwise.



CONSTRUCTION VOLUME

In contrast with the chart above showing the number of new dwelling units started each year in the United States, the chart to the right shows the dollar volume of all types of construction. While the number of dwelling units has followed a rather erratic pattern, total dollar construction, each succeeding year, has been higher than the preceding year. We believe this will again be true for 1957.

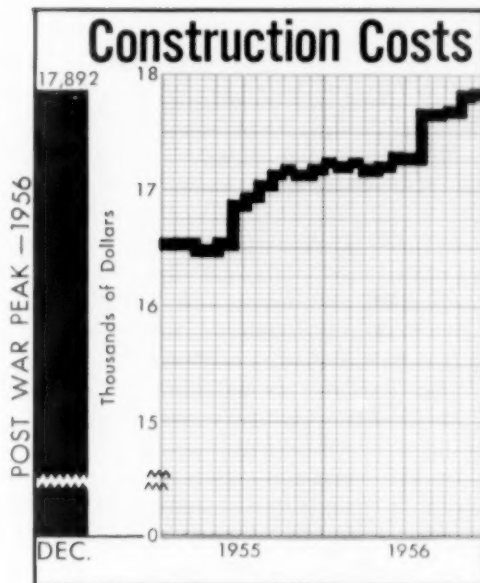
A fairly large increase is expected in 1957 in the construction of office buildings and warehouses, churches, schools, hospitals, institutions, public utilities, and public construction. The high volume in nonresidential construction will take up a large part of the slack in the residential field.



CONSTRUCTION COSTS

The chart to the right shows the changes in the construction cost of a standard six-room frame dwelling from January 1955 through December 1956. With relatively few exceptions, the cost of building a house has gone up rather consistently for the past 24 years. The month-by-month fluctuations for the last 2 years are shown by the chart to the right. The increase in the past 2 years has been 8%, with a substantial rise during 1956.

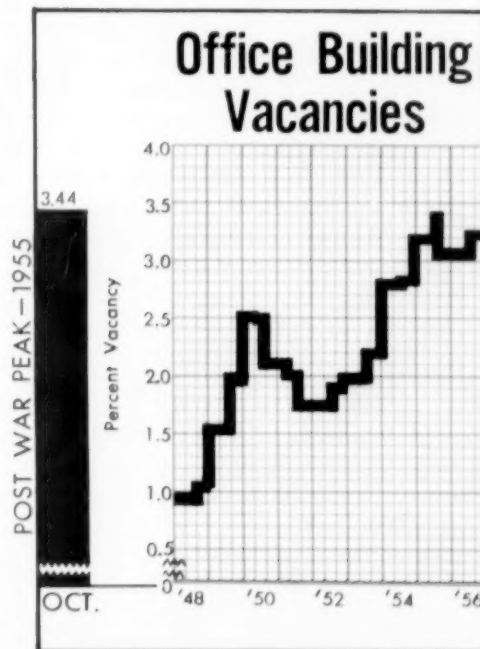
It seems probable that construction costs will increase slightly in 1957. The increase will not be a very large one, as some building materials are now in surplus supply. Freight rates and building labor, however, are higher than they were a year ago.



OFFICE BUILDING VACANCY

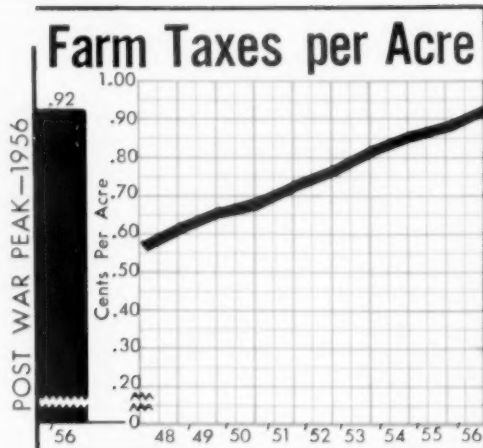
Eleven years ago, office building vacancies were almost nonexistent, but there has been a tendency, particularly since 1953, for these vacancies to rise. If the construction of office buildings continues at the rate which has been maintained during the past 12 months, vacancies will rise still further during 1957, particularly in those cities in which a large volume of office building construction is taking place.

In spite of increasing office building vacancies, rents, on the average, throughout the United States, will increase. In most cities office building vacancies have not yet reached the point where they act as a depressant on space rates. Then, too, much of the older space is being modernized to make it acceptable on a higher rate basis.



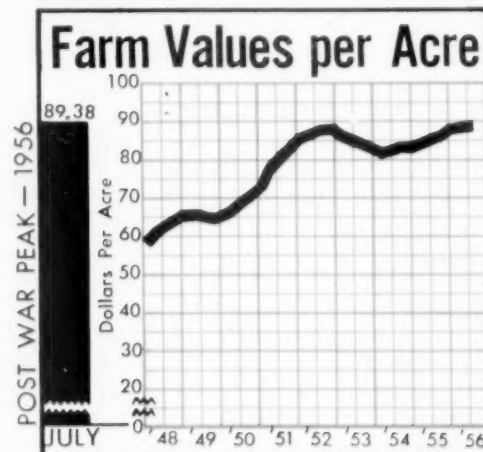
FARM TAXES PER ACRE

In 1943, farm taxes per acre averaged 38¢. Since then, every year has seen an increase, until the average in 1956 was 92¢. This is an increase of 142% above the 1943 level. We believe that 1957 will see a further increase, probably bringing the total to about 95¢ per acre. There seems little possibility of stopping tax increases in the near future, as the costs of State and county governments are advancing. With the higher birth rates, schools alone need much larger budgets than they did.



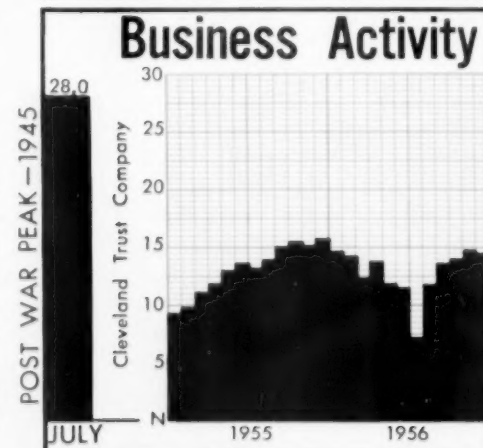
FARM VALUES PER ACRE

The average value per acre of farm land in the United States has now reached an all-time record of \$89.38. Values per acre in this computation include the value of buildings. It is impossible to segregate the values of the buildings from the values of the land in the sales figures that are reported. A part of the increase in farm values during the past 20 years may be due to better buildings on the farms. This affects farm values per acre more strikingly in areas where farms are relatively small in size.



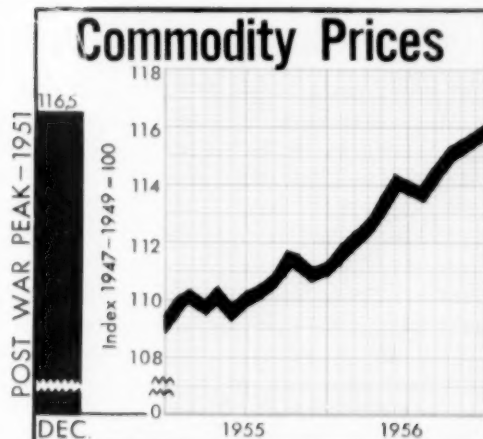
BUSINESS ACTIVITY

From the middle of 1954, business activity increased rather consistently until the beginning of 1956. It then dropped with a strike-induced low during the summer months. It has now recovered a part of the drop, but is considerably below the corresponding months of a year ago. The general expectation is that business activity will hold fairly close to its present level during 1957.



WHOLESALE COMMODITY PRICES

Wholesale commodity prices have been rising during 1956, in spite of the anti-inflation moves of the Administration. The need for these moves is shown by the fact that wholesale commodity prices have risen in 19 of the past 24 years. They are now roughly three times their level in 1933. The increase during 1956 was almost 4%. This brings wholesale commodity prices to within 0.3% of their all-time high, with the probability that during 1957 a new record will be set.



WHOLESALE BUILDING MATERIAL PRICES

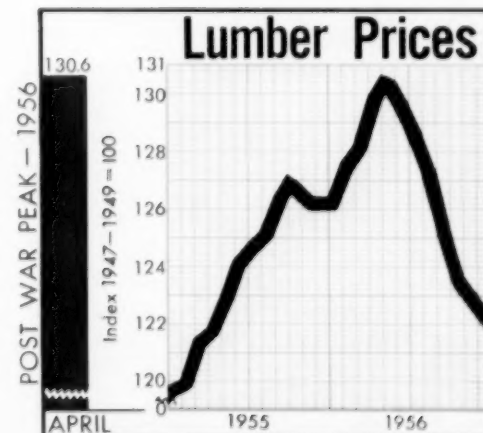
In August 1956, wholesale building material prices set a new high at 131.5% of the 1947-49 level. The rise in building material prices during the past 24 years has been much greater than the rise in wholesale commodity prices. This indicates that the same increase in manufacturing efficiency has not been attained in the building material field which has been reached in many other fields of mass production.

It looks as if in 1957, building materials will rise again to new high levels.



WHOLESALE LUMBER PRICES

Lumber prices, after exhibiting considerable strength in 1955 and the early part of 1956, slumped rather badly in the last quarter of the year. The drop in residential building was probably the primary cause, as it left many lumber mills with high inventories. The size of these inventories has caused considerable price cutting, and this may continue during the first part of 1957. Lumber prices will probably stabilize later in the year.



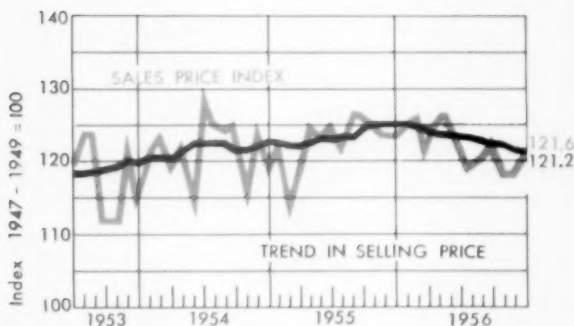
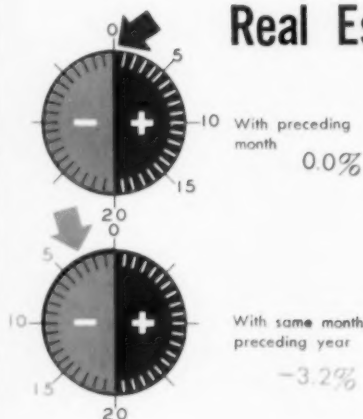
PURCHASING POWER OF THE DOLLAR

In recent years, the purchasing power of the dollar was higher in 1949 than it has been since. If the 1939 prewar dollar is taken as 100¢, the 1956 dollar averaged 51.2¢. By the end of 1956, however, it was down to 50.5¢.

The purchasing power of the construction dollar has declined by a greater percentage. While the purchasing power for goods and services has been cut in half, the purchasing power for new construction is now less than one-third of what it was in 1939.



Real Estate Sales Price Comparisons



Date	Trend in selling price	Probable selling price of a house that sold for \$12,000 in 1947-49 period	Date	Trend in selling price	Probable selling price of a house that sold for \$12,000 in 1947-49 period
1947-49	100.0	\$12,000	Oct. '48	104.5	\$12,540
1913	40.1	4,812	Oct. '53	119.7	14,360
1918	34.1	4,092	Oct. '54	122.3	14,680
Mar. '29	73.9	8,868	Jan. '55	122.9	14,750
May '32	34.8	4,176	May '55	123.5	14,820
Apr. '34	44.8	5,376	Oct. '55	125.1	15,010
July '37	40.1	4,812	Jan. '56	125.3	15,035
Apr. '38	42.8	5,136	Mar. '56	124.5	14,940
Mar. '41	40.1	4,812	June '56	123.1	14,770
			Sept. '56	121.9	14,630
			Oct. '56	121.8	14,620
			Nov. '56	121.2	14,545
			Dec. '56	121.2*	14,545*

*Preliminary